

Additional Benefits of the LCRA-San Marcos Partnership

Stabilizing Factors

A long-term contract helps stabilize partnerships, facilitate long-term planning and reduce risks for LCRA and customers in the eyes of the financial community.

A Financially Strong Partner

LCRA's strong bond ratings and tax-exempt financing allows it to borrow money at lower rates, which helps lower costs for its wholesale electric customers.

Large-Scale Procurement

LCRA's customers reap the economic benefits of its large-scale and reduced-cost procurement of fuel and energy.

Diverse, Flexible Power Portfolio

LCRA's diverse generation supply mix of coal, natural gas, hydroelectric and wind generation provides flexibility and reduces risk over the long term.

Public Service Partnerships

LCRA's wholesale electric customers can partner with LCRA on other community and economic development services.



The City of San Marcos is considering amending its wholesale power agreement with the Lower Colorado River Authority (LCRA) to continue their public power partnership to 2041.

The proposed amendment provides many benefits to the City of San Marcos, including:

Stability and Cost-Based Prices

LCRA focuses on providing stable and cost-based prices over time, regardless of volatile market conditions. Also, the agreement provides assurance that revenues collected through electric generation rates, with the exception of contributions to LCRA's Public Service Fund, will be used only for the benefit of LCRA's wholesale electric customers, including the City of San Marcos.

Flexibility

The City of San Marcos can manage part of its power supply by purchasing up to 35 percent of its electricity needs from other suppliers. It also has the option to return to LCRA for full coverage of its needs.

Input with Impact

The City of San Marcos has access to information during the early stages of LCRA's decision-making processes and opportunities to provide direct input on actions that affect prices and generation assets.

Opportunities to Share Ownership of New Generation

The City of San Marcos can purchase an interest in any significant new generation developed or acquired by LCRA.

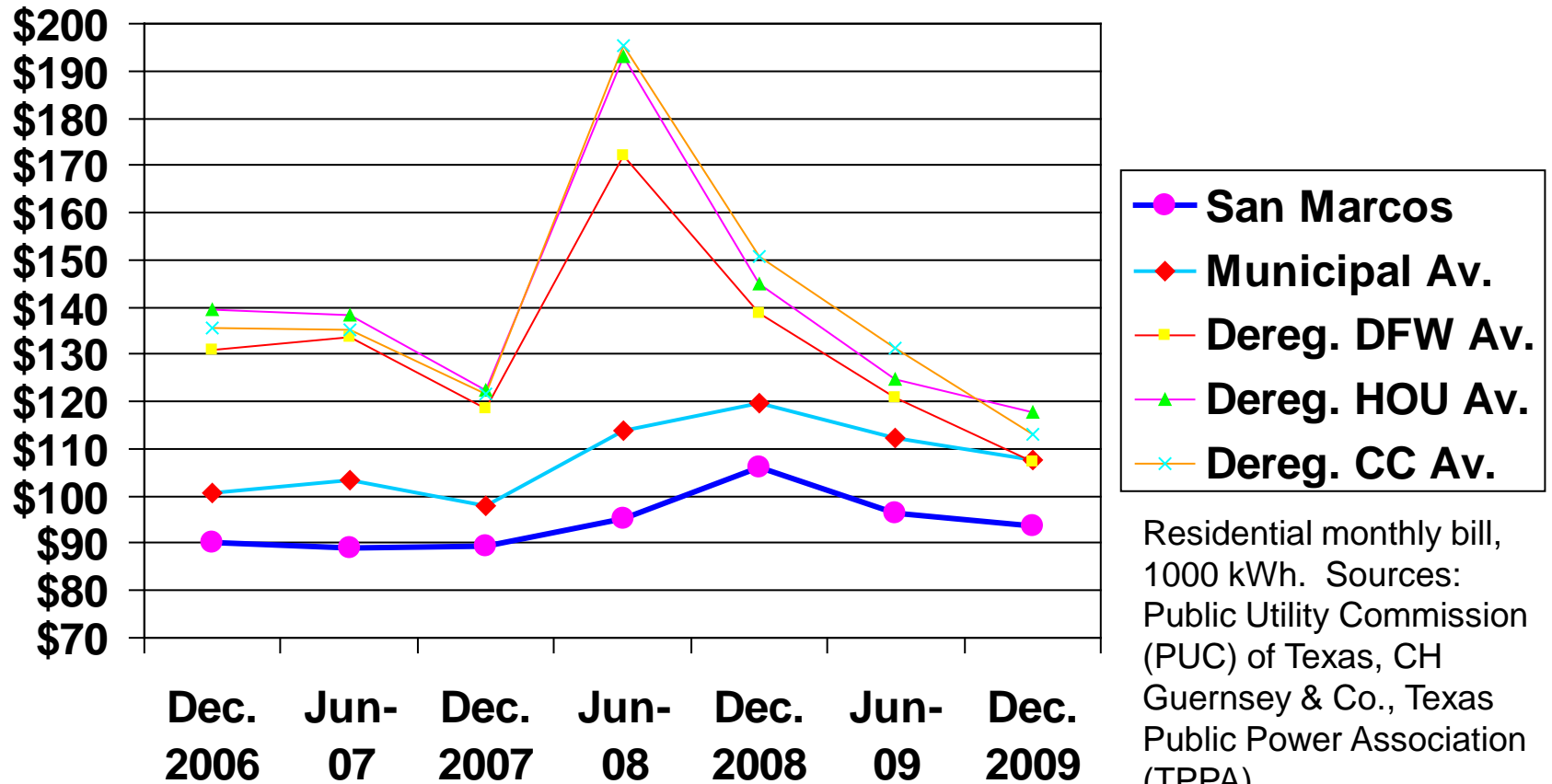
An Avenue for Dispute Resolution

The City of San Marcos can seek dispute resolution before a panel of independent, expert arbitrators if it believes LCRA's prices are too high or that LCRA is not meeting its obligations under the contract.

Support for Conservation and Renewable Energy Goals

The City of San Marcos and LCRA can collaborate on the development of cost-effective conservation, demand-side management, energy efficiency, renewable energy and distributed energy programs. There is no limit to the reduction in energy use that the City of San Marcos can achieve through these efforts, and the City remains free to adopt whatever goals it chooses. San Marcos also can pursue additional renewable energy options outside LCRA's portfolio.

Electric Rates in San Marcos: Stable and Lower than Deregulated Prices.



Residential monthly bill, 1000 kWh. Sources: Public Utility Commission (PUC) of Texas, CH Guernsey & Co., Texas Public Power Association (TPPA).

Deregulated rates are the average of all retail offers in the Oncor area (DFW), CenterPoint area (Houston), and AEP-TCC area (Corpus).

Electric Rate Comparisons

San Marcos municipal utility electric rates: 9.4 cents.

- More stable than the deregulated retail electric market.
- At the low end of the scale.
- Significantly lower than deregulated rates during times of high natural gas prices. Why? San Marcos has diverse power sources (natural gas, wind, coal and hydro from LCRA). Deregulated prices are closely tied to gas prices.
- Lower, but closer to deregulated prices today - a time of extremely low natural gas prices. Why? The economy has pushed gas prices to historic lows and deregulated retail prices have followed. Will gas and deregulated electric prices stay this low? Experts expect an increase, but not the 2008's extremely high levels.

Apples & Oranges: comparing deregulated retail electric prices and municipal utility rates.

- Most municipally owned electric utilities (MOUs) have one major residential electric rate.
- There are multiple deregulated residential price offers, for example 50 12-month fixed price offers today in DFW.

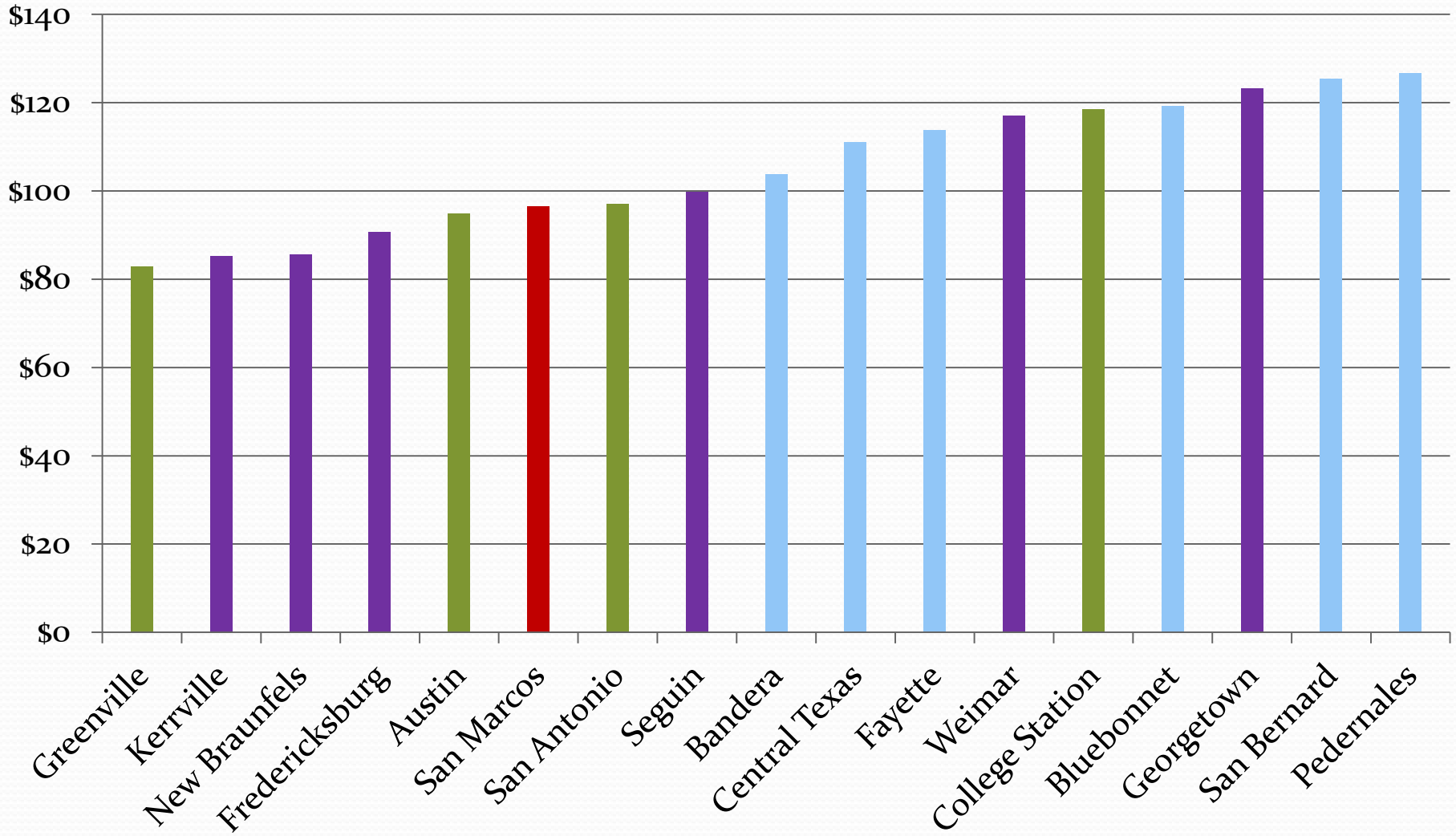
The most comparable deregulated prices: 10.7 – 10.8 cents.

- Poor comparison: highest Retail Electric Provider (REP) prices. DFW = 13.5 cents.
- Poor comparison: low REP prices. DFW = 7.6 – 9.0 cents.
 - Variable, can change next month, often with extra fees (connections, deposits, cancellations, etc.).
 - Usually from smaller REPs seeking to attract business. 4 such REPs went out of business in 2008. Larger REPs focus on fixed price offers. 7.6 cents = Abacus Energy.
 - Large REPs sometimes have variable rates: 9.0 cents = Reliant. Today, TXU doesn't offer variable plans.
- Better comparison: average REP prices: 10.7 cents DFW.
 - A blend of high and low, variable and fixed REP offers.
 - 10.7 cents: example, DFW REP average, 12/09.
- Better comparison: 12-month fixed price REP offers.
 - Closer to the stability of municipal rates, appears most popular residential choice.
 - 10.8 cents: example, DFW average 12-month REP offer, 3/22.

Notes: San Marcos rates per PUC, 12/09. High and low REP prices per PUC, 3/25/10. Average REP price per CH Guernsey, 12/09. Average 12-month fixed REP price per Association of Electric Companies of Texas (AECT).

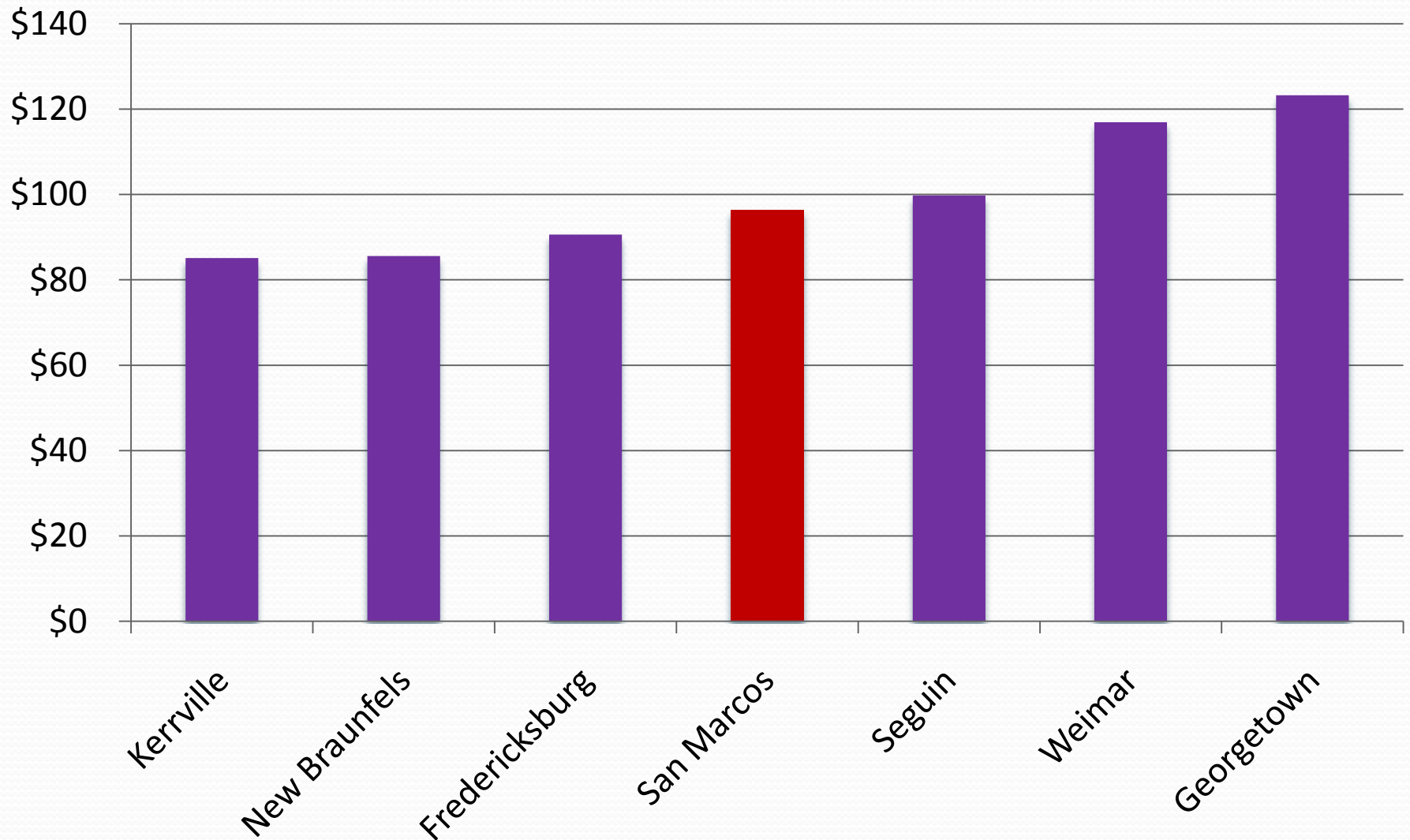
Cost Comparison

based on 1,000 kWh

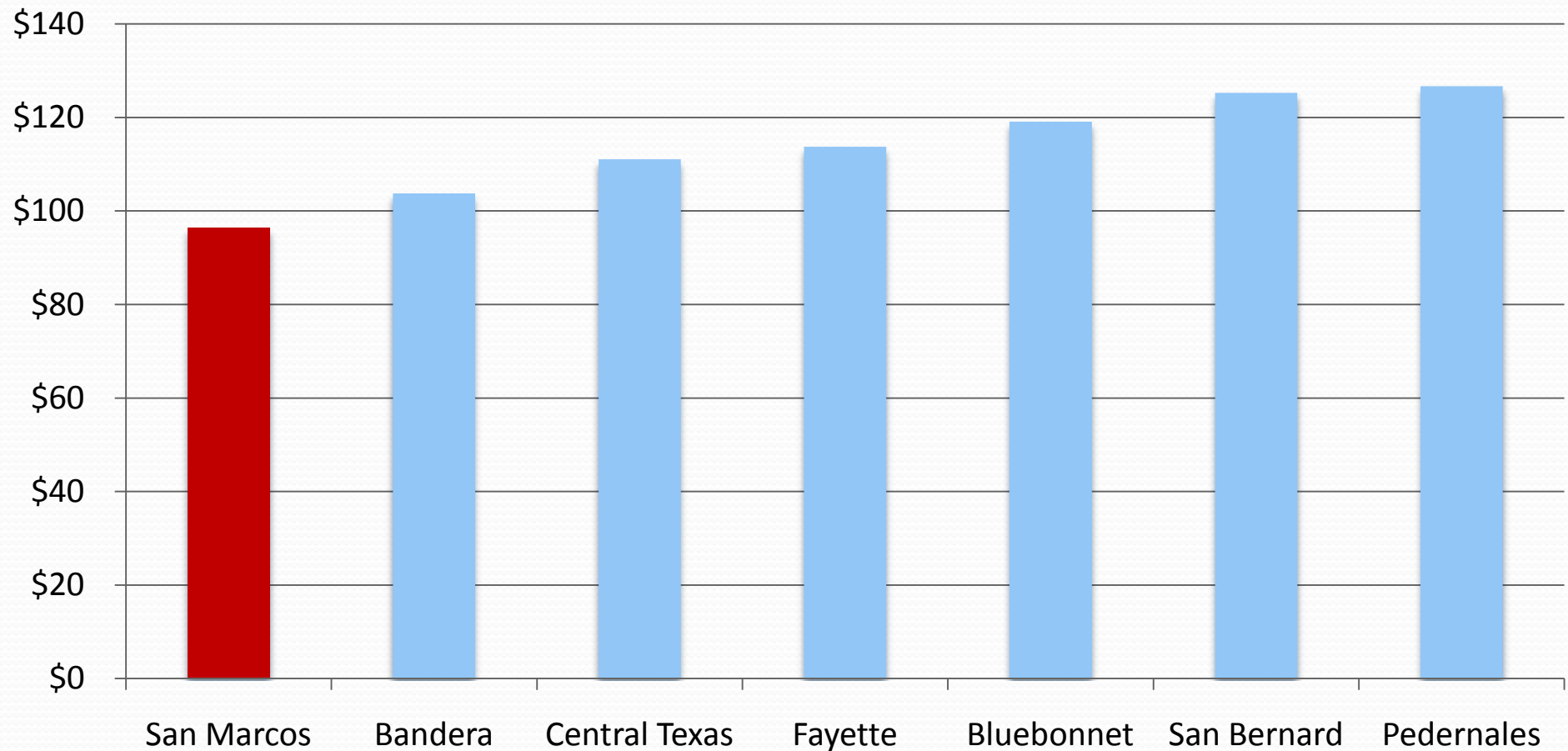


LCRA City Cost Comparison

based on 1,000 kWh



LCRA Cooperative Cost Comparison based on 1,000 kWh



Other MOUs Cost Comparison

based on 1,000 kWh

